

Emerging Issues in

FINANCE & MANAGEMENT

Editor
Gourab Das





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Growth of Life Insurance Corporation of India: A Comprehensive Study



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Abstract

Life Insurance the Corporation of India was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India. The income earning capacity, eagerness and awareness of the general public are the key determinants of the growth of any insurance industry. In the Indian context, the insurance habits among the general public during the independence decade was rare but there was a remarkable improvement in the Indian insurance industry soon after the economic reform era (1991) due to healthy competition from many national as well as international private insurance players. This study has analyzed the data collected from the policy

holders and has brought out the expectations of the policy holders and their preferences. It has also offered suggestions that can be implemented for the benefit of the common public and the Government.

Keywords: *Insurance, Government, Economic reform, Growth etc.*

Introduction

Life Insurance the Corporation of India was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India. Over 245 insurance companies and provident societies were merged to create the state-owned Life Insurance Corporation.

The Oriental Life Insurance Company, the first company in India offering life insurance coverage, was established in Calcutta in 1818 by Anita Bhavsar and others. Its primary target market was the Europeans based in India, and it charged Indians heftier premiums. Surendra Nath Tagore (son of Satyendra Nath Tagore) had founded Hindustan Insurance Society, which later became Life Insurance Corporation.

In first 150 years it faces most horrible economic conditions. In that period, India's First War of Independence has taken place along with adverse effects of the World War I and World War II on the economy of India. In between them country witnesses the worldwide economic crises triggered by the Great depression.

VISION: "To be the preferred life insurer of the people of Fiji by providing innovative life insurance products and world class service at affordable rates."

MISSION: "Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development."

Functions of Life Insurance Corporation of India

The life insurance business was nationalized on 19th January, 1956 and the Life Insurance

Corporation of India came into being on 1st September, 1956 to carry on life business. The Main Function of LIC can be stated as follow:-

- (a) To collect the savings of people through a life insurance policy and invest that money in various financial markets.
- (b) To invest fund in Government securities to protect the savings of the people who have given their money to LIC.
- (c) To issue policy at affordable rates to people.
- (d) To provide loans to industry at lower interest rates.
- (e) To provide loan to various national project for economic growth.

SWOT Analysis of LIC

Strengths

- Book value per share improving for last two years.
- Company with Zero Promoter Pledge.
- Effectively using its capital to generate profit.
- FII/FPI or institution increasing their participation in share.

Weaknesses

- High interest payments compared to earnings.
- Decline in Net Profit with falling Profit Margine.
- High Debt Companies

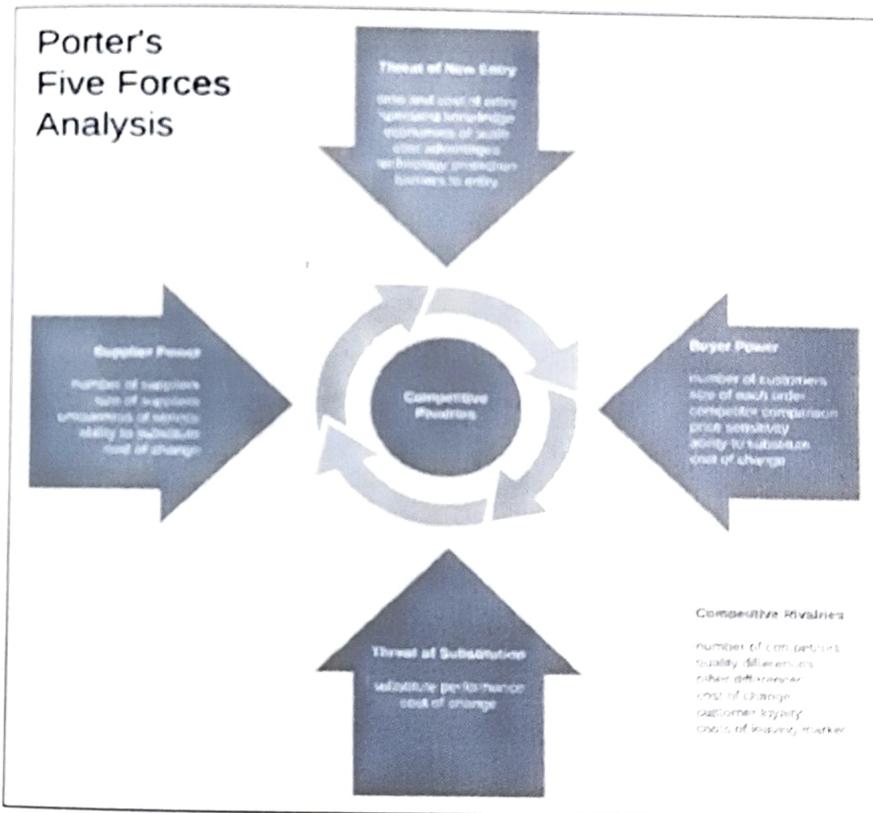
Opportunities

- Use of Technology to provide effective services to cater to urban population.
- Broker upgraded recommendation or target price in the past three months.

Threats

- Economic crisis.
- Increasing trend in Non-Core Income.
- Increase in provision in recent results.

Porter's five forces model of competition



OBJECTIVE OF STUDY

- ❑ To discuss the core areas of LIC.
- ❑ To analyse Performance of LIC in the Post Liberalization period.
- ❑ To identify the factors influencing policy holders satisfaction in LIC policy.

Review of Literature

In order to find out the gaps in research, the literature already available pertaining to the problem is to be reviewed. The literature on life insurance industry in India includes books, compendia, theses, dissertations, study reports and articles published by academicians and researchers in different periodicals. The review of this literature gives an idea to concentrate on the unexplored area and to make the present study more distinct from other studies. The literature available is presented below:

Mishra, K.C. and Simita Mishra (2000) In their article on “Insurance Industry: Recipe for a Learning Organization” say that like any other industry, insurance industry in India suffers from one challenge repeatable a hundred times, that is the constraints of infrastructure.

Balasubramanian, T.S. and Gupta, S.P. (2000) In their book on “Insurance Business Environment” explain at length the global and Indian pictures of Insurance systems. The impact of globalization and also liberalization on Insurance business environment is also discussed analytically to have a clear understanding of the challenges faced by the insurance industry.

Mitra Debabrata (2000) In the thesis entitled “Employees and the PSU: A study of their relationship with Special reference to Jalpaiguri Division of the Life Insurance Corporation of India” opines that the State-owned Undertakings provide all sorts of facilities and amenities to employees along with usual emoluments. But, their productive rate is low when compared it with the private sector undertakings. In the Jalpaiguri Division, the employee relationship with the LIC is clearly discussed and some suggestions are also given in the thesis.

Wadikar Ashok Laxaman (2001) In his thesis on “Innovativeness in the Insurance Industries”, confirms a general opinion that innovativeness in every activity alone rules and dominates the industry. But, at the

same time, the practicality and economic justification of that innovativeness are also to be considered. With the introduction of the latest technology into the industry, innovativeness in the insurance industry is the order of the day.

Balachandran, S. (2001) In his book on “Customer Driven Services Management” concludes that the insurance industry is fast growing and mostly becoming a customer-driven and customer-centric one. He also advocates that when the insurance products are attractive to the customers, then only the insurance industry flourishes in the market and serves its purpose of profit earning and also income generation.

Srivastava, D.C. and Srivastava, S. (2001) In their book on “Indian Insurance Industry Transition and Prospects” discuss analytically the financial significance of insurance industry, its contribution to Indian economy and also the transitory prospects and challenges of insurance industry due to liberalization and the opening up of the sector to private players

Mark S. Dorfman (2002) In his book on “Introduction to Risk Management and Insurance” reviews the salient features of the insurance industry and also the role played by the private enterprise.

Methodology

We have collected information on the basis of secondary data for my project, because it was not possible to relay on the primary data in this phase of worldwide pandemic covid -19. Hence, our data are based upon secondary data analysis.

Secondary data is one which already exists and is collected from the published sources. The sources from which secondary data was collected are:

- Newspapers and Magazines like Economic Times, Insurance Times, and Insurance Post.

- ❑ Internet.
- ❑ To study the rural centric marketing management techniques adopted by the life insurance companies.
- ❑ To identify the lacunae / deficiencies in the existing marketing techniques vis-a-vis the expectations, awareness levels and safety perceptions of the rural people.
- ❑ To suggest suitable rural centric marketing management techniques to the life insurance companies for wider rural coverage.

DATA ANALYSIS

SOME OF THE BASIC CORE AREAS COVERED UNDER THE SCHEME OF LIC ARE GIVEN FOLLOWING:

New Jeevan Anand

LIC's New Jeevan Anand Plan is a participating non-linked plan which offers an attractive combination of protection and savings. This combination provides financial protection against death throughout the lifetime of the policyholder with the provision of payment of lumpsum at the end of the selected policy term in case of his/her survival. This plan also takes care of liquidity needs through its loan facility.

Benefits:

Death benefit: Provided all due premiums have been paid, the following death benefit shall be paid:

On Death during the policy term: Death benefit, defined as sum of Sum Assured on Death and vested Simple Reversionary Bonuses and Final Additional bonus, if any, shall be payable. Where, Sum Assured on Death is defined as higher of 125% of Basic Sum Assured or 10 times of annualized premium. This death benefit shall not be less than 105% of all the premiums paid as on date of death. The premiums mentioned above exclude service tax, extra premium and rider premiums, if any. On death

of policyholder at any time after policy term: Basic Sum Assured

Benefits payable at the end of Policy Term: Basic Sum Assured, along with vested Simple Reversionary Bonuses and Final Additional Bonus, if any, shall be payable in lump sum on survival to the end of the policy term provided all due premiums have been paid.

Final (Additional) Bonus may also be declared under the plan in the year when the policy results into death claim during the policy term or due for the survival benefit payment provided the policy is in full force and has run for certain minimum term.

New Bima Bachat – (Plan No. 916, UIN: 512N284V02):

LIC's New BimaBachat is a participating non-linked savings cum protection plan, where premium is paid in lump sum at the outset of the policy. It is a money-back plan which provides financial protection against death during the policy term with the provision of payment of survival benefits at specified durations during the policy term. In addition, on maturity, the single premium shall be returned along with Loyalty Addition, if any. This plan also takes care of liquidity needs through its loan facility.

Benefits:

Death benefit: On death during the first five policy years: Sum Assured. On death after completion of five policy years: Sum Assured along with Loyalty Addition, if any.

Survival Benefits: Payable as given below in case of Life assured surviving to the end of the specified durations:
For policy term 9 years: 15% of the Sum Assured at the end of each of 3rd & 6th policy year
For policy term 12 years: 15% of the Sum Assured at the end of each of 3rd, 6th & 9th policy year
For policy term 15 years: 15% of the Sum Assured at the end of each of 3rd, 6th, 9th & 12th policy year

Maturity Benefit: Payment of Single Premium (excluding taxes and extra premium, if any) along with Loyalty Addition, if any, in case of Life Assured surviving to the end of the policy term.

LICs Jeevan Umang – (Plan No: 945, UIN: 512N312V02)

LIC's Jeevan Umang plan offers a combination of income and protection to your family. This plan provides for annual survival benefits from the end of the premium paying term till maturity and a lump sum payment at the time of maturity or on death of the policyholder during the policy term. In addition, this plan also takes care of liquidity needs through loan facility.

Benefits:

Death Benefit: On death of the Life Assured during the policy term, provided all due premiums have been paid then. On death before the commencement of Risk: Return of premium/s paid without interest shall be payable. On Death after the commencement of Risk: Death Benefit, defined as sum of "Sum Assured on Death" and vested Simple Reversionary Bonuses (as mentioned in 2 below) and Final Additional bonus, if any, shall be payable where "Sum Assured on Death" is defined as the highest of:

10 times of annualized premium; or

Sum Assured on Maturity; or

Absolute amount assured to be paid on death, i.e. Basic Sum Assured.

This death benefit shall not be less than 105% of all the premiums paid as on date of death. Premiums referred above shall not include any taxes, extra amount chargeable under the policy due to underwriting decision and rider premium(s), if any.

Survival Benefit: On the life assured surviving to the end of the premium paying term, provided all due premiums have been paid, a survival benefit equal to

8% of Basic Sum Assured shall be payable each year. The first survival benefit payment is payable at the end of premium paying term and thereafter on completion of each subsequent year till the Life assured survives or till the policy anniversary prior to the date of maturity, whichever is earlier.

Maturity Benefit: On the life assured surviving to the end of the policy term, provided all due premiums have been paid, "Sum Assured on Maturity" along with vested Simple Reversionary Bonuses (as mentioned in 2 below) and Final Additional bonus, if any, shall be payable where "Sum Assured on Maturity" is equal to Basic Sum Assured.

Liberalizations post 2000s

In August 2000, the Indian Government embarked on a program to liberalize the Insurance Sector and opened it up for the private sector. Ironically, LIC emerged as a beneficiary from this process with robust performance, albeit on a base substantially higher than the private sector.

In 2013 the First-Year Premium compound annual growth rate (CAGR) was 24.53% while Total Life Premium CAGR was 19.28% matching the growth of the life insurance industry and also outperforming general economic growth. A thriving insurance sector is very important to every modern economy. Firstly, because it encourages the habit of saving, secondly because it provides a safety net to rural and urban enterprises and productive individuals. And perhaps most importantly it generates long-term invisible funds for infrastructure building. The nature of the insurance business is such that the cash inflow of insurance companies is constant while the payout is deferred and contingency related. This characteristic feature of their business makes insurance companies the biggest investors in long-gestation infrastructure development projects in all developed and aspiring Nations. This is the most compelling reason why private sector (and foreign) companies, which will spread

the insurance habit in the societal and consumer interest are urgently required in this vital sector of the economy. Opening up of insurance to private sector including foreign participation has resulted into various opportunities and challenges in India.

YEAR	First Year Premium		No. of Policy Income	
	LIC	Private Insurer	LIC	Private Insurer
2009-10	98.64%	1.36%	NA	NA
2010-11	94.30%	5.70%	96.75%	3.25%
2011-12	87.66%	12.34%	94.20%	5.80%
2012-13	78.77%	21.37%	81.48%	8.52%
2013-14	73.52%	26.46%	86.08%	10.92%
2014-15	74.32%	25.68%	82.83%	17.17%
2015-16	64.02%	35.88%	73.03%	26.079%
2016-17	60.80%	30.11%	70.62%	29.48%
2017-18	85.83%	34.23%	73.01%	26.00%
2018-19	68.70%	31.30%	76.01%	23.09%

Source: Compiled by Researchers

Factors influencing policy holders satisfaction in LIC policy:-

- Age of policy holder.
- Income of policy holder.
- Gender of policy holder.
- Occupation of policy holder.

Limitations of Study

As the study made with Primary and Secondary research, there are certain limitations to the study to be noticed:

- (a) Main limitation to the study which I felt was relying on just secondary data, as the entire world is fighting against the pandemic COVID -19 and by our government we were instructed to be inside our home.
- (b) The study is confined only to policyholder satisfaction of LIC and other related issues are beyond the purview of present study.
- (c) Due to time constrain the researcher covered only a limited period of study i.e. 2005- 2006 to 2009-2010.
- (d) We could have collected primary data, i.e., some questionnaires, samples of the holders of the LIC schemes but due to covid -19 lockdown phase we were unable to do so.
- (e) It is difficult to know if all the digital websites gave accurate information; some digital websites tend to give misleading information.

FINDINGS & CONCLUSIONS

Findings:

- ❑ As Far As its role and contribution to national economy are concerned LIC in order to strengthen its link between the investors has made its inroads to various cost related services, mutual funds, housing finance and overseas activities etc.
- ❑ LIC has also been enhancing the economic activities by helping small & medium scale industry through the provisions of funds for their infrastructural development.
- ❑ LIC has been fulfilling its social Responsibility by subsidizing specific kinds of policies.
- ❑ LIC was to spread the life insurances by providing coverage against death at a reasonable cost to poor and vulnerable section of the society in the rural and thereby to maximize saving of the people.

- LIC is helping even in remote corners of the country and hence it has been contributing tremendously to nation building.

Recommendations:

In the modernized well-advanced hi-tech approach to the customer every possible facilities and effort to build up the confidence of the rising policy holders towards. Insurance companies, to complete one another nothing is left to recommend. But some recommendations that are intensely felt and highly required for insurers to sustain in the market. These are as follows:

- More and more transparency should be ascertained between insurers and policy holders.
- Particularly, in the emerging boom in the insurance company, every insurance company should be customer centered, and well versed in the handling of problem and grievances of the policy holders.
- Each and Every product launched by the Insurance Company should be in favor of increasing need of policy holders.

IRDA should be more and more responsible to the insurance sector by determining some standard. It should be mandatory to every insurers to make more and more responsible and responsive to the policy holders so that comprehensive understanding may be developed among policy holders. It may be beneficial on both sides.

Conclusions

This study has analyzed the data collected from the policy holders and has brought out the expectations of the policy holders and their preferences. It has also offered suggestions that can be implemented for the benefit of the common public and the Government. After overhauling the all situation that boosted a number of pvt. Companies associated with multinational in the Insurance Sector to give befitting competition to the established behemoth

LIC in public sector, we come at the conclusion that:

There is very tough competition among the private insurance companies on the level of new trend of advertising to lull a major part of Customers.

- (a) LIC is not left behind in the present race of advertisement.
- (b) The entry of the pvt. Players in the Insurance Sector has expanded the product segment to meet the different level of the requirement of the customers. It has brought about greater choice to the customers.
- (c) Private insurers have restricted reach to the customers.
- (d) LIC has vast market and very firm grip on its traditional customers and monopoly of life insurance products.

Suggestions:

During the study it is found that policy holders prefer banking and insurance together. They prefer private insurance sectors because they provide them the banking facility and a lot of value-added services. So, it will be beneficial both to the common public and the LIC if it offers banking facility to the policy holders and the common public.

The overall performance evaluation of Life Insurance Corporation of India is consistent. The working groups have been worked hard for their functions but still some drawbacks are left behind, for that suggestions are as under:

- ❑ LIC should try to increase their selling of plans to introduce new plans with different kinds of facilities, so that it can increase its income amount, especially Premium amount.
- ❑ As private insurance companies capture the market now a day, therefore, LIC should strengthen their

working & should launch plans with more facilities.

- The Corporation should strive to increase its business by issuing more and more policies in order to retain its market share in the competitive scenario.
- Operating cost as compared to premium underwritten should be controlled.
- A comparative statement of performance between LIC and various insurance companies may help increase the business
- A comparative statement of performance of operating expenses of LIC and various insurance companies may help to narrow down the cost.
- LIC of India should continue making investments, but secured investments should be made.

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